



City of Bay City, Michigan
09-7020
Supplementary Information to
Basic Financial Statements
(Federal Awards)

Year ended June 30, 2004

City of Bay City, Michigan

**Supplementary Information to
Basic Financial Statements
(Federal Awards)**

Year ended June 30, 2004

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

**Independent Auditors' Report on Compliance with Requirements
Applicable to each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor
and City Commission
City of Bay City
Bay City, Michigan

Compliance

We have audited the compliance of the City of Bay City, Michigan (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's financial statements include the operations of the Downtown Management Board and Wenonah Park Properties, which received \$-0- and \$5,181,986, respectively, in federal awards which are included in the schedule during the year ended June 30, 2004. Our audit, described below, did not include the operations of the Downtown Management Board and Wenonah Park Properties because the component units engaged other auditors to perform audits in accordance with *Government Auditing Standards*. Also, Wenonah Park Properties engaged other auditors to perform an audit in accordance with OMB Circular A-133. An OMB Circular A-133 audit was not required for the Downtown Management Board.

Of the \$5,181,986 in federal funds received by Wenonah Park Properties, \$3,977,750 was passed through the City and is therefore shown on the Schedule of Expenditures of Federal Awards during the year ended June 30, 2004. We did not test compliance requirements for the federal funds received by Wenonah Park Properties, other than as related to subrecipient monitoring performed by the City. Wenonah Park Properties' compliance with the requirements related to the pass-through federal funds it received was audited by another auditor, whose report was furnished to us. Based on our review of the other auditor's report, we have determined that it does not contain any reportable findings of noncompliance.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance

with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, based on our audit and the report of the other auditors, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We did not assess the internal control over compliance for Wenonah Park Properties. For those objectives, other auditors obtained an understanding of the design of relevant internal control policies and procedures, determined whether they have been placed in operation and assessed control risk. The other auditor's report has been furnished to us; however, the scope of our work did not extend to these internal control policies and procedures established and maintained by Wenonah Park Properties.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the Mayor, City Commission, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andrews Sloop & Pavlik P.L.C.

Bay City, Michigan
November 12, 2004

City of Bay City, Michigan
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2004

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Amended Grant Amount	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grant Entitlements	14.218	B-97-MC-26-0003	\$ 1,872,000	\$ 5,000
	14.218	B-98-MC-26-0003	1,838,000	48,008
	14.218	B-99-MC-26-0003	1,849,000	20,500
	14.218	B-00-MC-26-0003	1,855,000	118,747
	14.218	B-01-MC-26-0003	1,926,000	441,986
	14.218	B-02-MC-26-0003	1,878,000	318,047
	14.218	B-03-MC-26-0003	1,758,000	662,113
	14.218			405,210
				<u>2,019,611</u>
HOME Program	14.239	M98-MC260219	368,000	20,167
	14.239	M99-MC260219	398,000	89,239
	14.239	M00-MC260219	397,000	8,000
	14.239	M01-MC260220	442,000	69,821
	14.239	M02-MC260219	442,000	143,634
	14.239	M03-MC260219	286,780	27,313
	14.239			1,658
				<u>359,832</u>
Special Purpose Grants - Conference Center	Unknown	MI28SPG503	800,000	574,989
	Unknown	MI28SPG37	5,731,500	902,761
	14.248			2,500,000
				<u>3,977,750</u>
Special Purpose Grant - Bigelow Park/Riverwalk Improvements	Unknown	MI28SPG12	769,000	4,974
Total U.S. Department of Housing and Urban Development				<u>6,362,167</u>
U.S. Department of Justice				
BJA Vests	16.607	Unknown	11,557	2,967
Local Law Enforcement Block Grant	16.592	02-LB-BX-2034	44,035	42,770
Local Law Enforcement Block Grant	16.592	03-LB-BX-1003	43,641	16,102
Fire Department Grant	16.007	Unknown	50,000	21,945
	83.554	EMW-2003-FG-18735	20,036	9,770
Total U.S. Department of Justice				<u>93,554</u>
U.S. Environmental Protection Agency				
Passed through Michigan Department of Environmental Quality				
State Revolving Funds	66.468	5194-01	10,382,035	906,913
Total U.S. Environmental Protection Agency				<u>906,913</u>
Total Federal Financial Assistance - Primary Government				<u>\$ 7,362,634</u>

City of Bay City, Michigan

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Note 1. Reconciliation of Federal Revenue Recognized in Financial Statements

Federal awards per schedule	\$ 7,362,634
Add:	
Federal awards audited in separately issued financial statements – Wenonah Park Properties-Component Unit	1,204,236
Federal awards administered by the Michigan Department of Transportation	24,300
Federal awards received for which expenditures were incurred in prior years	20,769
Less:	
Federal award related to the State Revolving Fund Bay City Wastewater Treatment Plant Improvement Project	(906,913)
HUD Section 108 Loan Guarantee Assistance	(2,500,000)
Program income of the Community Development Block Grants and HOME Program	(406,868)
Total Federal Revenue Recognized in Financial Statements	<u>\$ 4,798,158</u>

Note 2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Bay City (the City) and is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal funds to subrecipients as follows:

<u>Federal/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Housing and Urban Development		
Community Development Block Grant	14.218	\$ 217,189
HOME Program	14.239	357,208
Special Purpose Grants – Conference Center	Unknown	1,477,750

Note 4.

The State Revolving Fund is a State of Michigan program that provides local governmental units funding to make improvements to their sewage disposal systems. The loan agreement entered into by the City with the State provides funding up to \$42,435,000 to make improvements to the City wastewater treatment plant. The City reports the loan liability and capitalizes the construction activity relating to the project in the Sewer Fund. The amount reported on the Schedule for the State Revolving Fund is based on federal participation of approximately 20.92-28.04 percent applied to total project expenditures of \$3,420,394 incurred during the year ended June 30, 2004.



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

**Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor
and City Commission
City of Bay City
Bay City, Michigan

We have audited the financial statements of the City of Bay City, Michigan (the City) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. We did not audit the financial statements of Downtown Management Board or Wenonah Park Properties (component units of the City of Bay City) or the Police and Fire Retirement System (a fiduciary fund of the City of Bay City). These audits were performed by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Commission, management, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andrews Hooper & Pavlik P.L.C.

Bay City, Michigan
November 12, 2004

City of Bay City, Michigan

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness identified?

 Yes X No

Reportable condition identified not considered to be material weakness?

 Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major programs:

Material weakness identified?

 Yes X No

Reportable condition identified not considered to be material weakness?

 Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

 Yes X No

Identification of major programs:

CFDA Number

Name of Cluster and/or Federal Programs:

66.468

State Revolving Fund

Unknown

Special Purpose Grants – Conference Center

Dollar threshold used to distinguish between Type A and Type B programs:

\$500,000

Auditee qualified as low-risk auditee?

 Yes X No

City of Bay City, Michigan

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statements Findings

None.

Section III – Federal Award Findings and Question Costs

None.

City of Bay City, Michigan

Summary Schedule of Prior Audit Findings

Year ended June 30, 2004

No items related to federal awards are required to be reported.